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TAGS: [PGOV](#) [ECON](#) [EFIN](#) [KCOR](#) [LE](#)  
SUBJECT: LEBANON: TOOLS OF PATRONAGE: LEBANON'S "COUNCILS  
AND FUNDS"

REF: A. BEIRUT 153  
[1](#)B. BEIRUT 141

Classified By: Ambassador Michele J. Sison for reasons 1.4 (b) and (d).

SUMMARY

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[1](#)1. (C) The four "Majalis and Sanadeeq" (Councils and Funds) under the Lebanese Prime Minister's office are widely known to be the epitome of patronage in Lebanese administration. This cable takes a closer look at the function of the Council for the South (CFS), the Fund for the Displaced (FFD), the Higher Relief Council (HRC), and the Council for Development and Reconstruction (CDR), as well as the political maneuvering behind them. The recent budget battles in the Lebanese cabinet between PM Fouad Siniora and Speaker Nabih Berri over the Council for the South budget, which Siniora wants to eliminate, have brought to light an underlying reality of the Lebanese political system: that political leaders, rather than state institutions, take responsibility and credit for services provided to their constituents, in some cases reaping financial benefit as well. The USG does not provide assistance through any of these institutions, though many other foreign donors do. End summary.

HISTORY: KEEPING ENEMIES QUIET

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[1](#)2. (C) When Rafiq Hariri became prime minister in 1992, in the aftermath of the Lebanese civil war, he was essentially a political outsider. After making his fortune in Saudi Arabia, he returned to Lebanon to assist in rebuilding the country, and when he took office, many hoped he would bring an end to the feudal politics of political dynasties and militia rule. While many credit Hariri with ushering in a period of revitalization following the war, he also institutionalized patronage as a means of paying off potential political foes and giving himself room for political and financial maneuver in his efforts to rebuild the country.

[1](#)3. (C) At a time when the two most powerful Christian voices from the war period, Michel Aoun and Samir Geagea, were sidelined (Aoun in exile and Geagea in jail) Hariri allowed the remaining Christian leaders (and some Muslims) to benefit from their close ties to the occupying Syrians, while ensuring that the other major confessional leaders -- Shia

leader Nabih Berri and Druze leader Walid Jumblatt -- would have the financial resources available to keep them politically strong. Hariri guaranteed government funding for the Council for the South, allowing Berri to maintain his leadership position among the Shia in southern Lebanon, and the Fund for the Displaced, which essentially became a slush fund for Jumblatt in his native Chouf region.

14. (C) Meanwhile, Hariri placed the pre-existing Council for Development and Reconstruction and Higher Relief Council under the control of his office, turning CDR into a "super-ministry," controlling both government and donor funds for development projects across Lebanon, and the HRC into a pass-through for donor funds with no operating budget and little oversight. The PM took on decision-making power regarding which regions and contractors would benefit from projects carried out under the auspices of these two funds. All four entities have remained in place with this structure ever since.

CLEAR MANDATES  
ZERO TRANSPARENCY IN EXECUTION  
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15. (C) While we describe the Councils and Funds as patronage instruments, they were theoretically created to do something positive for Lebanon. The Councils and Funds do accomplish modest development and relief goals, although, according to contacts, with a lot of funds taken off the top, mainly through overvalued contracts, which are then subcontracted at lower cost. A brief description of each entity follows:

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-- Council for the South: Created in 1970 to provide assistance to those whose property was damaged by Israeli attacks in southern Lebanon, as well as to pay pensions to the families of those killed by the Israelis, the Council has paid around \$1 billion since its inception. Since the Israeli withdrawal from southern Lebanon in 2000, there have been numerous calls for its closure, but it has continued operations, unilaterally expanding its mandate from relief to development. Most contacts contend that Berri and his wife, Randa, take a cut of any profits made through the CFS's contracts.

-- Fund for the Displaced: Created in 1993 to compensate both those displaced by fighting during the civil war, as well as those forced to move out of the homes of those displaced, to make room for their return, the Fund refuses to release information about how much money it has disbursed since its inception. Anti-corruption groups have estimated that it has received more than \$1.5 billion, most of which has been given to Druze families in the Chouf, purportedly to prepare the way for the return of Christians displaced during the war. Independent estimates place the percentage of displaced that have returned home between 10% and 20%. Again, the FFD is technically under the control of the PM's office, not the Ministry of the Displaced, which does not disburse funds.

-- Council for Development and Reconstruction: As noted above, when he took office, Rafiq Hariri "promoted" CDR, originally created in the 1970s to replace the Ministry of Planning, by stocking it full of his closest associates (at salaries much higher than those of the civil service) and taking personal control of decision-making on where its funds go and through whom. While government contributions to CDR are part of the national budget, foreign contributions are off-budget, and procurement rules notoriously lax. World Bank Country Director Demba Ba told EconOff his organization was constantly fighting CDR's declarations that it "already has a contractor" for projects, usually someone either associated with the PM or whom the PM needs to compensate for a political or financial favor.

-- Higher Relief Council: The HRC was created in 1977 to pay relief funds to those whose property was damaged as a result of Israeli attacks and to rebuild infrastructure. It has also accepted donations for relief following natural disasters. The HRC has repeatedly been the target of attacks from opposition politicians and transparency advocates of all political stripes. There are no detailed public documents on HRC funding, and as noted above, its budget is not part of the national budget. The HRC takes donations from private citizens, as well as international donors. Khalil Gebara, co-executive director of the Lebanese Transparency Association and now member of the Supervisory Commission for the upcoming elections, told EconOff the vast majority of HRC payments not made to individual claimants have been spent through political parties for "development" projects in key areas. In addition, HRC money has been disbursed to reimburse those who lost their homes during the civil war and, most recently, the 2006 Israel-Hizballah war. (Note: In the southern suburbs of Beirut, a large percentage of those receiving HRC checks to compensate for damage to their homes in the 2006 war pass them on to Waad, Hizballah's reconstruction company for the southern suburbs. Waad was designated January 6, 2009 by the U.S. Treasury Department under E.O. 13224 as an organization providing support to terrorism, i.e., Hizballah. End note.) The HRC's lack of transparency was highlighted in the fall of 2008, when PM Siniora spent \$500 million of money donated to the HRC by Saudi Arabia in areas not earmarked by the Saudis, reportedly much to then Saudi Ambassador Khoja's fury. The result is over \$400 million in deficit -- that is being charged to the Finance Ministry, despite the fact that the HRC is not part of the Lebanese state's budget. None of our Embassy contacts has had any concrete information on how the money was spent.

NO USG CONTRIBUTIONS  
GO TO COUNCILS AND FUNDS

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16. (SBU) No U.S. government assistance passes through any of these institutions. The only cash assistance the U.S. has provided Lebanon is budget assistance pledged in 2007 at the Paris III conference, and this is used to pay down GOL debt directly with creditors, without passing through any GOL entity. USAID and other U.S. assistance mechanisms do not channel funds through the Lebanese government, and follow strict USG procurement policies. However, we know that many foreign donors and international institutions give money through CDR, or occasionally HRC, which can then distribute it to the other funds. The World Bank, France, Italy, and most Gulf countries make donations through CDR, while the Gulf states have also been frequent contributors to the HRC in recent years, as many Sunni leaders in the Gulf are close to the Hariri family and Siniora, a Rafiq Hariri protege.

CURRENT BUDGET BATTLES  
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17. (C) Understanding the four Councils and Funds puts the current budget impasse between Siniora and Berri in perspective. Many political observers have been perplexed as to why Siniora would choose to fight a battle over the Council for the South when the entire political class understands that it is impossible to close one of the funds without closing or reforming the others, and particularly after Siniora allowed the CFS, whose oversight falls to the PM's office, to do as it pleased for so many years. Finance Ministry Director General Alain Bifani, no supporter of Siniora, after years working under him at the ministry, attributes the PM's behavior to his miserly ways. As a former finance minister, Siniora wants to sabotage the budget so that spending will, by law, be constrained at 2005 levels (as were the 2006-2008 budgets, which parliament never passed), says Bifani. Opposition Free Patriotic Movement MP Ibrahim Kanaan believes Siniora is hoping to extract

concessions on judiciary appointments in exchange for a compromise on the CFS. If the budget does eventually pass the cabinet, it will be interesting to see Siniora's next steps as the law moves on to parliament.

COMMENT

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18. (C) The corruption of these entities is disturbing, but what is perhaps more disturbing is the funneling of government funds purely for political benefit, to the detriment of state bodies, in direct conflict with USG aims of building competent state institutions. The patronage of the current system is spread across the political spectrum, meaning it is in no politician's interest to dismantle it. Politicians may talk about reform, but they have no interest in seeing it come about. Yet the purpose of these funds is an open secret: each Lebanese we have spoken to -- whether elite or working class -- is aware of what they are or what purpose they serve. The current system makes the anti-corruption message of Michel Aoun -- who has not participated in the arrangement because he was in exile when it came about -- resonate with many voters, particularly Christians, who are keenly aware that they have never been direct beneficiaries of the system in the same way Sunnis, Shia, and Druze have.

19. (C) Proposals from Aoun and Berri to dismantle all the funds and create a Ministry of Planning would theoretically be good for Lebanon, both in terms of public finances and transparency. Nonetheless, it is worth noting that the original 2009 budget proposal submitted by the Ministry of Finance, under instructions from the PM, called for the elimination of the Council for the South and the Fund for the Displaced, with no mention of CDR and HRC, breeding rumors that the PM was looking to have his cake (elimination of rivals' slush funds) and eat it too (maintaining the two patronage entities under his control). Naturally, both Jumblatt and Berri fought back against the proposal. This kind of political maneuvering suggests that old habits die hard, and even a new Ministry of Planning would risk being

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used as another payoff mechanism, though with a shiny new structure. End comment.

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